

# IRS News Release

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## **Commissioner Doug Shulman Discusses 10-Year Anniversary of the IRS Restructuring and Reform Act of 1998**

### **Prepared Remarks Before Tax Analysts Conference on RRA '98**

IR-2008-90, July 18, 2008

WASHINGTON — Good morning. I would like to thank Chris Bergin for the opportunity to be here today to discuss the IRS Restructuring and Reform Act. I greatly enjoyed my work on the Restructuring Commission, and it is a real pleasure to see here today so many familiar faces from that time – even if we all look a little older.

Before I get into a discussion of the Act I would like to make one observation about the IRS. I think we would all agree that, in general, the IRS is viewed as a very efficient and competent tax agency. In fact, it is the tax agency that other tax agencies around the work aspire to emulate. But I must tell you how impressed I am with the workforce and the leadership at the IRS. In my four months on the job, I have seen the incredible dedication and commitment to public service of the people at the IRS. The IRS workforce is highly motivated and clearly understands its mission.

Just look at the last few months. This year, the employees and leaders at the IRS delivered another successful filing season. They dealt with the late enactment of the AMT patch in a way that minimized delays for taxpayers. And they still found time to send out more than 112 million stimulus payments totaling about \$92 billion.

I am very proud to be leading an organization of such fine public servants.

Let me turn now to the Restructuring Act. I want to make some observations about the Act and then talk a little about where I think the IRS needs to go and where I hope to lead it during my time as commissioner.

As you all know, the Act was a landmark in the history of the IRS. It laid out a fundamental new direction for the agency. And it contains many detailed provisions including 71 new taxpayer rights. As I reviewed the Act to prepare for today, it's easy to get lost in the trees and fail to see the forest. So I will confine my remarks today to the broader issues that I believe the Act addressed.

One of the clear mandates of the Act was for IRS to dramatically improve service to taxpayers. No one can argue that this was not the right thing to do. In the 1990s, service at the IRS fell to unacceptable levels. Getting through the toll-free system to talk to an assistor was a daunting task. And to add insult to injury, once a taxpayer got through, the risk that the information given out was wrong was unacceptably high.

In this area, the IRS has shown dramatic improvement. In FY 2007, our toll-free assistor level of service was 82 percent and the tax law accuracy was 91 percent. So we are giving better service, and it is easier to get through. But the toll-free line is no longer the sole way to get help from the IRS.

The IRS Web site has become increasingly important in providing taxpayers with the information they need. And taxpayers are becoming more and more comfortable going to the Web. For example, last year, there were 215 million visits to our Web site. That is more than double what it was only five years earlier.

And the Web is not just a place to get a form or a publication. We are adding more and more tools to the Web every year. And taxpayers are using them. Last year, we had over 32 million refund status checks using our "Where's my Refund" application. And this year, we added applications to help taxpayers compute the amount of their stimulus payments and track when the payment would be made.

I have talked a little bit about service. I want to now talk a little about enforcement. In the years following the enactment of the Restructuring Act, there were marked declines in certain areas of IRS enforcement. I think there are many reasons for this. But more importantly, I believe that the IRS has now appropriately refocused on its enforcement efforts. I think that the IRS has worked hard to ensure that there is balance between service and enforcement. Maintaining that balance between service and enforcement is, in my mind, critical. It isn't an either/or proposition. We need to do both.

The Act also addressed a number of governance issues. Perhaps most notably, it created the IRS Oversight Board. I have experience working with boards, and I believe they can be helpful. In my time as commissioner so far, I have found the Oversight Board to be a valued resource, and I am grateful to the Board for their support and assistance as we work on strategic issues going forward.

Perhaps the most dramatic change brought about by the Act was the structural reorganization of the agency. When the Restructuring Commission's report was issued, the IRS was geographically based with a National Office in Washington, D.C. and field offices across the country. The field consisted of four regions. Within those four regions were 33 districts, 10 service centers and two computing centers.

In January of 1998, the agency unveiled a plan to reorganize around taxpayer segments. The Act validated that concept and paved the way for the IRS to proceed. We are now all very familiar with the notion of the four operating divisions – Wage and Investment, Small Business/Self-Employed, Large and Mid-Sized Business and Tax Exempt and Government Entities.

I think most would agree that this new structure has accomplished what was hoped. By focusing on a taxpayer segment, the operating division can tailor programs that are best suited to meet the needs of their taxpayer base.

This new structure also enables the IRS to be more effective in reacting quickly to emerging compliance issues. For example, I believe the recent success the IRS has had in combating abusive shelters was, in no small part, attributable to the existence of LMSB. Prior to the reorganization, the responsibility for dealing with tax shelter abuses would have been the responsibility of the examination function, which was to some degree independently managed in each region and district office and had responsibility for all examination activity – from abusive tax shelters to correspondence audits on the Earned Income Tax Credit. LMSB, on the other hand, was able to bring the focus and expertise necessary to address the issues.

Let me now turn to what I think we still need to do.

Many on the commission were concerned that some of the structural issues ultimately enacted in the legislation would create different types of stove-piping and parochialism. While the district structure had many shortcomings, it did allow for a better understanding by employees of what their colleagues did. Revenue Agents and Exam managers dealt on a daily basis with Revenue Officers and Collection managers. And everyone in the office reported to the same District Director. Some of this changed with RRA, which created the four operating divisions and made adjustments to the structure of the Taxpayer Advocate and the Chief Counsel.

To ensure that the current structure truly meets taxpayers' needs, I believe we need to reinforce the notion of "One IRS." From the taxpayer's point of view, we are the IRS. We are not SB/SE, LMSB or the Advocate or Chief Counsel. It is important the entire operation of the IRS is seamless and consistent, while respecting that its different parts each provide a critical piece of tax administration.

Another thing we must focus on is the taxpayer's experience: We must not only meet legal requirements, we must walk a mile in the taxpayers' shoes and help them navigate the system. There are many critical components to taxpayer service, but there are two I would like to highlight. First, we should aim to resolve any open issues at the earliest moment possible. This will save both the IRS and the taxpayer extra work down the line. Second, if a taxpayer deals with more than one business group within the IRS, we should coordinate with each other so the hand-off is quick and trouble free.

The Act also recognized that tax law complexity makes it difficult for taxpayers to comply and difficult for the IRS to administer. The legislation proposed that the IRS have a seat at the table as tax legislation is drafted to offer their view on the administrability of the legislation. While I understand that, upon request from the Joint Committee, we currently provide a complexity analysis of proposed legislation, I think there is more we could and should do to ensure that the policy goals of legislation are administrable.

I talked earlier about the importance of maintaining a balance between service and enforcement. To maintain that balance going forward, I believe we need to strive for sustained performance in our enforcement programs. We cannot let our enforcement efforts diminish.

But I also believe that we cannot audit our way to full compliance. We need to drive greater innovation in our enforcement endeavors. We need to supplement our efforts with new tools, such as more information reporting, soft notices and self-correction options for taxpayers.

Of course, all of our efforts depend upon the people of the IRS. The IRS will continue over the next years to be challenged by large numbers of retirements and increased competition with the public and private sector for talent. Dealing with these workforce issues will be an important issue for me during my time as commissioner.

The Restructuring Act recognized the need for the IRS to be successful in recruiting and retaining the talent needed to be successful and provided for personnel flexibilities. Going forward we may need additional flexibilities as we work to retain and promote our best employees and managers and recruit the highest quality workforce possible so that we can continue to be the best tax agency in the world.

I have a straightforward goal in this area. I want to ensure that five years from now, we have the leadership and workforce ready for the next 15 years at the IRS.

Finally, we spent a lot of time on modernization at the Commission. Since the Commission, I have been involved in very complex technology issues in the private sector. I know from experience that technology at the scale of the IRS is difficult, expensive and a non-linear exercise. Any large technology effort has some plans that are missed and some plans that succeed. That is the nature of the beast. But regardless of what happens, we need steady support for the modernization effort at the IRS. The tax system, the American taxpayer, and \$2.7 trillion of revenue depend on it.

In closing, I want to again thank Chris for providing me this opportunity to be here today to share with you some of my thoughts and ideas. If you would have told me 12 years ago, when I worked on the Commission, that today I would be with you as IRS Commissioner, I would have told you that you were crazy. But now that I've been here four months, I must say that the IRS has come a long way in the past 12 years, and I am proud to lead it.

I look forward to hearing more about the ideas shared here today. Thank you.